



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

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CITY OF EVART –  
LOCAL DEVELOPMENT FINANCE AUTHORITY  
OSCEOLA COUNTY, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2006

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CITY OF EVART - LDFA	County OSCEOLA
Fiscal Year End 6-30-06	Opinion Date 10-11-06	Date Audit Report Submitted to State 12-1-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO SIGNIFICANT ISSUES NOTED	
Other (Describe)	<input checked="" type="checkbox"/>	MANAGEMENT LETTER	
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH		Telephone Number 989-386-3481	
Street Address 601 BEECH STREET		City CLARE	State MI
		Zip 48617	
Authorizing CPA Signature <i>Shannon Wilson</i>		Printed Name SHANNON WILSON	License Number 1101027042

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## INDEPENDENT AUDITORS' REPORT

October 11, 2006

Development Board  
City of Evart - Local Development Finance Authority  
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority, Evart, Michigan, a component unit of the City of Evart, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Development Board  
City of Ewart - Local Development Finance Authority  
October 11, 2006

## Required Supplemental Information

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

Our discussion and analysis of the City of Evart - Local Development Finance Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006.

**Financial Highlights**

The Authority's net assets decreased by \$27,606 or 2.3%. Program revenues were \$21,478 or 6.4% of total revenues, and general revenues were \$313,018 or 93.6%.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Evart - Local Development Finance Authority financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the Government-wide financial statements by providing information about the Authority's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. Individual fund information for non-major funds is found in statements in a later section of this report. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**Reporting the Authority as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Authority's finances is, "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Authority's net assets as a way to measure the Authority's financial position. The change in net assets provides the reader a tool to assist in determining whether the Authority's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of Authority.

**Reporting the Authority's Most Significant Funds**

*Fund Financial Statements*

The Authority's fund financial statements provide detail information about the most significant funds – not the Authority as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue.

*Governmental Funds*

All of the Authority's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Authority's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**Government-wide Financial Analysis**

The statement of net assets provides the perspective of the Authority as a whole. Exhibit A provides a summary of the Authority's net assets as of June 30, 2006 and 2005:

	Exhibit A	Governmental	
		Activities	
		2006	2005
<b>Assets</b>			
Current and other assets		\$ 379,651	\$ 430,984
Capital assets - net of accumulated depreciation		788,644	805,886
Total assets		1,168,295	1,236,870
<b>Liabilities</b>			
Current liabilities		12,400	53,369
<b>Net Assets</b>			
Invested in property and equipment - net of related debt		788,644	805,886
Restricted		9	9
Unrestricted		367,242	377,606
Total net assets		\$ 1,155,895	\$ 1,183,501

This analysis focuses on net assets. The Authority's net assets were \$1,155,895 at June 30, 2006. Capital assets totaling \$788,644 compares the original costs, less depreciation of the Authority's capital assets. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the Authority's ability to use those net assets for day-to-day operations.

The \$367,242 in unrestricted net assets of governmental type activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

The results of this year's operations for the Authority as a whole are reported in the statement of activities, summarized in Exhibit B below, which shows the change in net assets for the years ended June 30, 2006.

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program revenue:		
Grants and contributions	\$ 21,478	\$ 87,487
General revenue:		
Taxes	279,345	228,525
Rent	24,000	24,000
Interest	9,673	4,987
Other	0	88
Total revenue	<u>334,496</u>	<u>345,087</u>
<b>Function/Program Expenses</b>		
General government	357,652	221,959
Community promotion	0	9,882
Community improvements	4,450	78,403
Interest on long-term debt	0	4,315
Total expenses	<u>362,102</u>	<u>314,559</u>
<b>Increase (Decrease) in Net Assets</b>	<u><u>\$ (27,606)</u></u>	<u><u>\$ 30,528</u></u>

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$362,102. Certain activities were partially funded from organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$279,345 in taxes, \$24,000 from incubator building rent, and \$9,673 in interest.

The Authority experienced a decrease in net assets of \$27,606. Key reasons for the change in net assets was an increase in the general government expenditures for the purchase of the DNR building. The Authority also had decreased grants and contributions revenue. These changes in revenue and expenditures were offset by increases in property tax revenue and a decrease in community improvement projects. The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**The Authority's Funds**

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

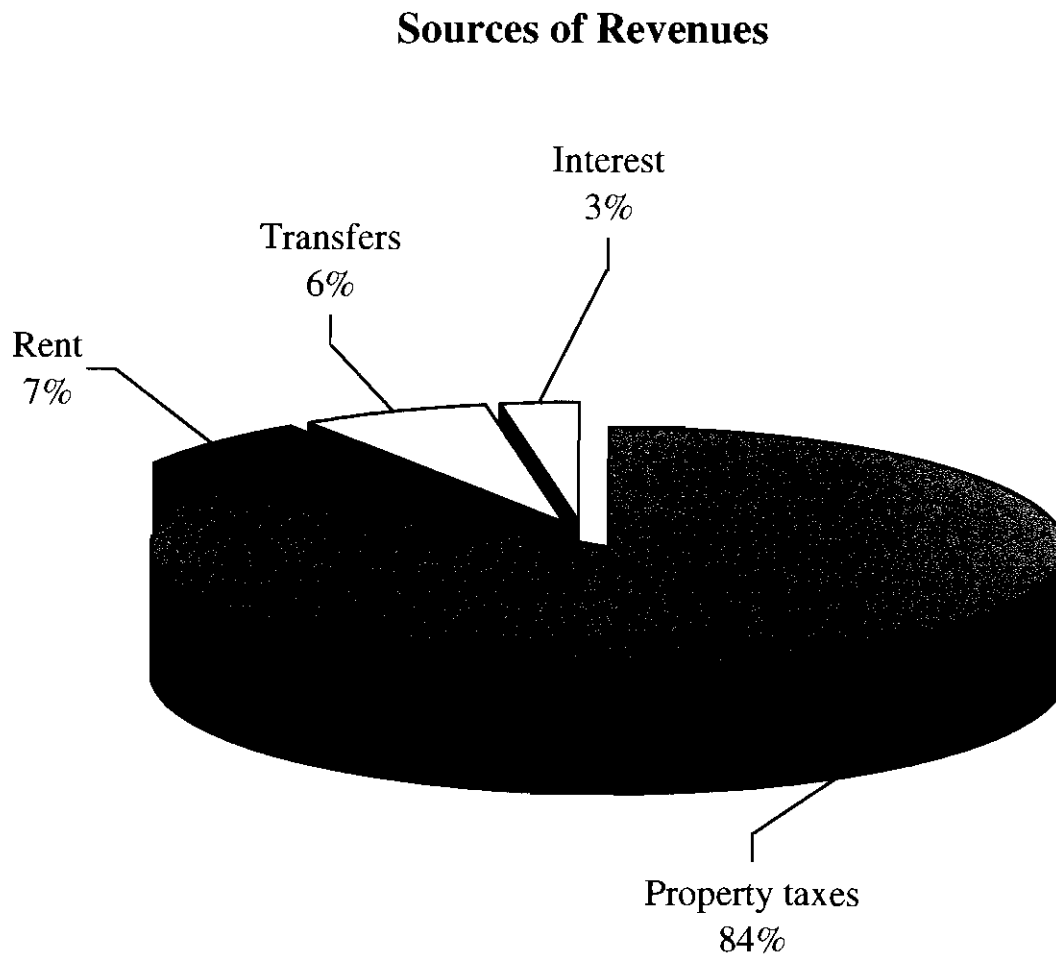
The Authority's governmental funds reported a combined fund balance of \$367,251, which is below last year's total of \$377,615. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2006 and 2005.

	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 367,242	\$ 377,606	\$ (10,364)
Debt service	<u>9</u>	<u>9</u>	<u>0</u>
Total	<u><u>\$ 367,251</u></u>	<u><u>\$ 377,615</u></u>	<u><u>\$ (10,364)</u></u>

- Our General Fund decreased \$10,364. The decrease is mainly due increases in payroll expenses and the purchase of the DNR building that was subsequently transferred to the City of Evart. The Authority also received less grants and contributions in the current year. These changes were offset by a decrease in debt service payments for the incubator building and by a decrease in community improvement projects. The Authority did experience higher tax revenue in the current year.
- Our Debt Service Funds had no change this year.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

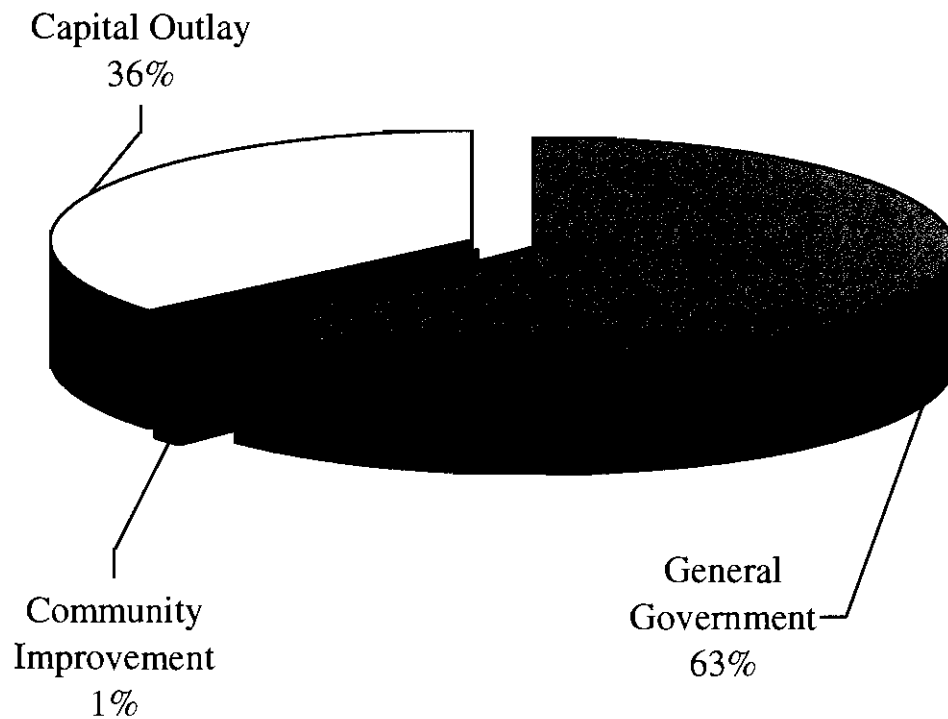
As the graph below illustrates, the largest portion of the Authority's revenue came from property taxes.



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

The graph below illustrates, 1% of the Authority's resources are spent on community improvements. Another 36% is spent on capital outlay, while 63% is spent for general government and community promotion expenses such as administrative costs, including occupancy costs, and promoting community events.

**Expenditures**



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

The chart below compares current year expenditures with prior year.

	<u>2006</u>	<u>2005</u>
<i>Expenditures by Function</i>		
General government	\$215,410	\$ 203,243
Community promotion	0	9,882
Community improvements	4,450	78,403
Debt service	0	83,103
Capital outlay	<u>125,000</u>	<u>3,729</u>
 Total	 <u><u>\$ 344,860</u></u>	 <u><u>\$ 378,360</u></u>

Expenditures are down by \$33,500 or 8.9% less than the prior year mostly due to decreased spending on community promotions, community improvements and debt service due to the incubator payoff in the prior year. These decreases were offset by the purchase of the DNR building.

**General Fund Budgetary Highlights**

Over the course of the year, the Authority revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were no changes to the General Fund original budget.

The differences between the budget and the final actual amounts are as follows:

- Actual revenues exceeded budgeted revenues by \$44,018. The difference is due to additional tax and interest revenue.
- Actual expenditures were under budgeted expenditures by \$167,239. The difference is due to proposed capital projects not being fulfilled due to funding shortfalls and less administration costs and community improvement project costs than budgeted.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**Capital Assets**

At June 30, 2006, the Authority had a net investment of \$788,644 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. The addition to the capital assets was for computer equipment.

	<u>2006</u>	<u>2005</u>
Land	\$ 338,300	\$ 338,300
Buildings and improvements	566,145	566,145
Equipment	4,438	3,225
Furniture and fixtures	<u>9,000</u>	<u>9,000</u>
Total capital assets	917,883	916,670
Less accumulated depreciation	<u>129,239</u>	<u>110,784</u>
Net capital assets	<u><u>\$ 788,644</u></u>	<u><u>\$ 805,886</u></u>

We do not anticipate any significant capital additions in the upcoming fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**Factors Expected to Have an Effect on Future Operations**

We expect to see an increase in property tax revenue next year as the tax base continues to be adjusted upward. We will adjust our budget for any significant revenue changes.

**Requests For Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the City of Evart - Local Development Finance Authority. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Evart - Local Development Finance Authority  
127 N. River Street  
Evart, MI 49631

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 218,806
Receivables:	
Accounts receivable	38,784
Due from other governmental units	121,324
Prepaid expenses	737
Capital assets less accumulated depreciation of \$129,239	<u>788,644</u>
 Total assets	 <u>1,168,295</u>
 <u>Liabilities</u>	
Accounts payable	5,530
Accrued payroll and other liabilities	<u>6,870</u>
Total liabilities	<u>12,400</u>
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	788,644
Restricted for debt service	9
Unrestricted	<u>367,242</u>
 Total net assets	 <u>\$ 1,155,895</u>

See accompanying notes to financial statements



# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Statement of Activities

For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants/</u> <u>Contributions</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Change in Net</u> <u>Assets</u>
Governmental activities:			
General government	\$ 357,652	\$ 21,478	\$ (336,174)
Community improvements	<u>4,450</u>	<u>0</u>	<u>(4,450)</u>
Total governmental activities	<u><u>\$ 362,102</u></u>	<u><u>\$ 21,478</u></u>	<u><u>(340,624)</u></u>
General revenues:			
Property taxes, levied for general purposes			279,345
Rent			24,000
Interest			<u>9,673</u>
			<u><u>313,018</u></u>
Change in net assets			(27,606)
Net assets - beginning of year			<u>1,183,501</u>
Net assets - end of year			<u><u>\$ 1,155,895</u></u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Governmental Funds  
Balance Sheet  
June 30, 2006

	<u>General</u>	Other Nonmajor Governmental Fund (1992 Local Development)	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 218,799	\$ 7	\$ 218,806
Receivables:			
Accounts receivable	38,782	0	38,782
Interest receivable	0	2	2
Due from other governmental units	121,324	0	121,324
Prepaid expenditures	<u>737</u>	<u>0</u>	<u>737</u>
Total Assets	<u><u>\$ 379,642</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 379,651</u></u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>Liabilities</u>			
Accounts payable	\$ 5,530	\$ 0	\$ 5,530
Accrued payroll and other liabilities	<u>6,870</u>	<u>0</u>	<u>6,870</u>
Total liabilities	<u>12,400</u>	<u>0</u>	<u>12,400</u>
<u>Fund Balance</u>			
Reserved for debt service	0	9	9
Unreserved:			
Undesignated	<u>367,242</u>	<u>0</u>	<u>367,242</u>
Total fund balance	<u>367,242</u>	<u>9</u>	<u>367,251</u>
Total Liabilities and Fund Balance	<u><u>\$ 379,642</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 379,651</u></u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

Total fund balances - governmental funds	\$ 367,251
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	917,883
Accumulated depreciation	<u>(129,239)</u>
Total net assets - governmental activities	<u>\$ 1,155,895</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2006

	General	Other Nonmajor Governmental Fund (1992 Local Development)	Totals
<u>Revenues</u>			
Property taxes	\$ 279,345	\$ 0	\$ 279,345
Rent	24,000	0	24,000
Interest	9,673	0	9,673
Total revenues	<u>313,018</u>	<u>0</u>	<u>313,018</u>
<u>Expenditures</u>			
Operating:			
General government	215,410	0	215,410
Community improvements	4,450	0	4,450
Capital Outlay	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total expenditures	<u>344,860</u>	<u>0</u>	<u>344,860</u>
Excess (deficiency) of revenues over expenditures	(31,842)	0	(31,842)
<u>Other Financing Sources</u>			
Operating transfers from other governmental units	<u>21,478</u>	<u>0</u>	<u>21,478</u>
Excess (deficiency) of revenues and other financing sources over expenditures	(10,364)	0	(10,364)
Fund balance - beginning of year	<u>377,606</u>	<u>9</u>	<u>377,615</u>
Fund balance - end of year	<u>\$ 367,242</u>	<u>\$ 9</u>	<u>\$ 367,251</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006

Net change in fund balance - total governmental funds	\$ (10,364)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(18,455)
Capital outlay	<u>1,213</u>
Change in net assets of governmental activities	<u><u>\$ (27,606)</u></u>

See accompanying notes to financial statements

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Evart - Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Evart - Local Development Finance Authority:

**Reporting Entity**

On December 17, 1990, the City Council of the City of Evart, Osceola County, Michigan, established a Local Development Finance Authority (Authority) to provide necessary infrastructure services to the companies within the industrial park and to create a positive surrounding, and to promote and attract additional business growth within the Local Development Finance Authority boundaries. The life of the Authority is fifteen years, after which time all assets acquired revert back to the City of Evart. The agreement was amended June 10, 1993, to extend the life of the Authority to the year 2023. The Authority is a component unit of the City of Evart.

The Authority is governed by a ten-member appointed board.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

**General Fund** – This fund is the general operating fund of the Authority. It is used to account for all financial transactions except those required to be accounted for in another fund.

Additionally, the Authority reports the following nonmajor governmental fund:

**Debt Service Fund** – This fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Equity**

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings, furniture and fixtures are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, furniture and fixtures are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Building improvements	20 Years
Equipment	5 Years
Furniture and fixtures	20 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2006**

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for the General Fund prior to the expenditure of monies in a fiscal year.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority's Project Consultant submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended, by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
3. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

At year-end, the Government's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$ 218,806</u>

**Custodial Credit Risk- Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2006, \$119,697 of the Authority's bank balance of \$219,697 was exposed to custodial credit risk.

The Authority's investment policy does not identify interest rate risk, foreign currency risk or concentration credit risk.

The Authority has no investments as of June 30, 2006.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2006**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Authority for the current year was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 338,300	\$ 0	\$ 0	\$ 338,300
Capital assets being depreciated:				
Buildings	441,145	0	0	441,145
Building improvements	125,000	0	0	125,000
Equipment	3,225	1,213	0	4,438
Furniture and fixtures	9,000	0	0	9,000
Subtotal	578,370	1,213	0	579,583
Less accumulated depreciation for:				
Buildings	72,422	11,029	0	83,451
Building improvements	29,778	6,250	0	36,028
Equipment	484	726	0	1,210
Furniture and fixtures	8,100	450	0	8,550
Subtotal	110,784	18,455	0	129,239
Net capital assets being depreciated	467,586	(17,242)	0	450,344
Governmental Activities, Total				
Capital Assets - Net of Depreciation	\$ 805,886	\$ (17,242)	\$ 0	\$ 788,644

Depreciation expense was charged to programs of the Authority as follows:

Governmental Activities:

General government \$ 18,455

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2006**

**NOTE 5– EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

**Plan Description** – The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

State of Michigan  
Office of Retirement Services  
P.O. Box 30171  
Lansing, MI 48909-7671

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution of 11 percent of gross wages.

**Annual Pension Costs** – For year ended June 30, 2006, the Authority's annual pension cost of \$8,934 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) 3 to 4 percent per year cost of living adjustments. Both are determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 5 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)**

Three year trend information as of December 31, 2005 follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 9,340	\$ 11,971	\$ 10,443
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	104,092	177,173	198,558
Actuarial accrued liability	111,565	212,306	240,807
Unfunded (overfunded) AAL	7,473	35,133	42,249
Funded ratio	93%	83%	82%
Covered payroll	81,946	99,101	73,509
UAAL as a percentage of covered payroll	9%	35%	57%

**NOTE 6 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2006

**NOTE 7 - OPERATING LEASES**

The Authority leases the incubator building to MacLellan Integrated Services, Inc. under an operating lease in the amount of \$2,000 per month.

The lease has expired and continues on a month to month basis. The Authority has agreed to provide the lessee six months notice before ending the arrangement.

**NOTE 8 - ECONOMIC DEPENDENCY**

The Authority received approximately 85% of their property tax revenue from one taxpayer. Due to the significance of this revenue source to the Authority, the Authority is considered to be economically dependent.

## **REQUIRED SUPPLEMENTAL INFORMATION**



CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
 Required Supplemental Information  
 Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Property taxes	\$ 240,000	\$ 240,000	\$ 279,345
Rent	24,000	24,000	24,000
Interest	5,000	5,000	9,673
Total revenues	<u>269,000</u>	<u>269,000</u>	<u>313,018</u>
<u>Expenditures</u>			
General government	225,600	225,600	215,410
Community promotion	12,000	12,000	0
Community improvement	53,750	53,750	4,450
Capital outlay	<u>220,749</u>	<u>220,749</u>	<u>125,000</u>
Total expenditures	<u>512,099</u>	<u>512,099</u>	<u>344,860</u>
Excess (deficiency) of revenues over expenditures	(243,099)	(243,099)	(31,842)
<u>Other Financing Sources</u>			
Operating transfers from other governmental units	<u>10,000</u>	<u>10,000</u>	<u>21,478</u>
Excess (deficiency) of revenues and other financing sources over expenditures	(233,099)	(233,099)	(10,364)
Fund balance - beginning of year	<u>377,606</u>	<u>377,606</u>	<u>377,606</u>
Fund balance - end of year	<u><u>\$ 144,507</u></u>	<u><u>\$ 144,507</u></u>	<u><u>\$ 367,242</u></u>



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
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PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

October 11, 2006

Board of Directors  
City of Ewart – Local Development  
Finance Authority  
City of Ewart, Michigan

This letter is intended to inform the Authority Board about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Authority Board.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

## **The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards**

Our audit of the financial statements of the Authority for the year ended June 30, 2006 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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# WEINLANDER FITZHUGH

Board of Directors  
City of Evert – Local Development  
Finance Authority  
October 11, 2006  
Page 2

## **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

## **Disagreements with Management**

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

## **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

## **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

## **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Authority.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than the specified parties.

*Weinlander Fitzhugh*